

## CONSUMER FOCUS BOARD

<b>PAPER 15.1</b>
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<b>Title:</b>	Hooper Review – Board Brief and Discussion Paper
<b>Purpose:</b>	For discussion
<b>Date of meeting:</b>	3 February 2009
<b>Responsible officer:</b>	Robert Hammond
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<b>Attachments:</b>	Discussion paper on The Hooper Review

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### **A Overview**

1. Richard Hooper's independent review on the UK postal services sector points to the stark reality of the unsustainable position of Royal Mail. It outlines a number of the key issues which have led to its decline and makes a number of broad recommendations as to how Royal Mail can be a viable operator in the 21<sup>st</sup> century. However, the implementation of his recommendations is not without risk to consumers.
2. The purpose of this paper is to provide to the Board a briefing on the main findings and recommendations of the Hooper review and to suggest key areas of discussion in order for the Board to frame Consumer Focus policy and ongoing campaign activity.

### **B Action for the Board**

3. The Board is asked to discuss and agree the key elements of Consumer Focus policy:
  - Should Consumer Focus support modernisation at any price if it delivers a better service for postal consumers, or should it take a position in relation to other social consequences, eg job losses as a result of greater automation?

- How should Consumer Focus position itself initially on the highly political issue of privatising Royal Mail, either partly, fully or not at all? Is it right to say that we believe that Royal Mail needs sustained, significant investment for modernisation but where there capital come from is a government decision?
- Is it helpful to organise deliberative research in order to test the consumer view on issues such as privatisation?
- If Royal Mail and a significant other operator, such as TNT, do form a partnership, would any consequential lack of competition be an issue for Consumer Focus if consumers benefited from any such union?
- Should the long term competitive market take precedence over short terms benefits to consumers and if so to what extent and between which consumer groups? For example, how much weighting should be given to the interests of consumers who rely on the post more (non-internet and rural) as opposed to other groups?
- Does Consumer Focus support the concept of Ofcom taking over the regulatory functions?
- How should we position ourselves in relation to the potential overlap with the Ofcom Consumer Panel?

### **C The key issues**

4. The challenge for Consumer Focus is to campaign for the continuing provision of the universal service to all consumers at an affordable uniformed price in the face of potential radical changes to the way in which Royal Mail is operated, funded and structured.

### **D Proposal**

5. The Board is asked to set a strategic framework for policy advocacy following the Hooper review

### **E Resources**

6. There are two possible actions that arise with resource implications:
  - Deliberative research – estimates range between £48k and £110k.
  - Stakeholder event – estimated spend £10k.

### **F Next steps**

7. To formulate detailed responses that Consumer Focus can use for lobbying and to proceed with organising events where these will contribute to this.

## **HOOPER REVIEW – Board Brief and Discussion Paper**

### **1. Hooper Report - Main Recommendations**

1.1 A fundamental element of Richard Hooper's report is to maintain the Universal Service Obligation (USO) and keep consumers at the heart of his review. Protection of the USO is crucial to providing an accessible postal service at an affordable uniform tariff to all UK consumers. Its importance lies in both the strong social and economic rationale it has for consumers, protecting the more vulnerable consumers on low incomes or those who live in remote rural areas and who might otherwise face higher prices or a third class postal service. Business consumers of all sizes also rely on the postal services to build their businesses, supply goods and receive payment; therefore protecting the USO is the lifeblood of their business. Post Offices are outside the scope of his report, but Richard Hooper believes they will benefit from a stronger Royal Mail.

1.2 Five main challenges have been identified by Hooper:-

- E-Substitution (the main challenge) – has led to a loss of £500m in revenue for Royal Mail, compared to a £100m loss of revenue to other mail operators.
- Efficiency – Hooper states that Royal Mail is the only company able to deliver the universal service, but lacks efficiency. For example continental mail operators use automated walksort for 85% of mail, Royal Mail sorts all mail by hand.
- Pension fund deficit – Royal Mail pay an additional £280m on top of the £500m in pension payments to plug the deficit. Royal Mail is therefore technically insolvent.
- Labour relations – relations with the Communications Workers Union (CWU) are poor and must improve.
- Regulation – relations with Postcomm are poor and must change.

1.3 The report makes several key recommendations:-

- Modernisation - Royal Mail needs to urgently modernise its operations. This means improving efficiency, reducing costs and transforming the culture of the organisation.
- Developing a Strategic Partnership – Royal Mail needs to enter into a relationship with a major private sector partner with experience in the transformation of a postal network in order to gain:
  - a) Commercial confidence ie to replace the executive shareholder, currently the government
  - b) Access to Capital
  - c) Access to the corporate experience
- Pension Fund – government should take over this burden as part of a coherent package.

- Regulation – Ofcom should take over from Postcomm with a key duty is to protect the USO in line with changes in the broader communications market.

## **2. Subsequent developments**

2.1 Government agrees with Hooper's analysis and recommendations and that there must be no cut back to the USO<sup>1</sup>

2.2 It plans to produce a detailed policy statement in March and it is believed is already drafting enabling legislation to give effect to its proposals.

2.3 There has been one firm offer of interest from TNT about injecting capital into Royal Mail. The government will consider any other offers that are made. A media article suggested that before Christmas, the government had appointed UBS to look for potential financial suitors.

2.4 A number of Labour MPs have criticised the suggestion of part private ownership of Royal Mail and an Early Day Motion (EDM) supporting a publicly owned Royal Mail has attracted 103 signatures to date.

2.5 Royal Mail Group has just announced profits of £255m for the 9 months leading up to Christmas and expects to double the profit it made in 2007-08.

## **3. Key Issues for CONSUMER FOCUS**

3.1 Consumer Focus wants a postal service that provides a universal service to all consumers at an affordable uniform price and that continues to meet the changes to society by reinvesting in the industry to ensure that it provides a service of the highest quality to all of its customers. This fundamental premise is more fully considered below, followed at the end by a number of questions to stimulate discussion on Consumer Focus policy direction.

## **4. Modernisation**

4.1 Modernisation should not be confused with new mechanisation alone as this is just one aspect of any modernisation programme, but should also include changes to its approach to customers, introduction of innovative ideas and better working relationships with the unions.

4.2 In the past Royal Mail has failed to modernise as quickly as is necessary for it to provide a good quality of service and to produce a return that is required to increase efficiency so that the USO can be maintained. This is particularly relevant in the postal market where other alternatives to the traditional postal service have increased eg e-mail and text messaging.

4.3 There needs to be consideration given to how the postal market will evolve over time and then bring in machinery and working practices that will address not only current but future demands as

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<sup>1</sup> Lord Mandelson's speech to the House of Lords - 16<sup>th</sup> December 2008

well. Social mail is declining yet packet mail is increasing as more and more items are bought on the internet. The judgement call on future modernisation by Royal Mail could be its finest hour or its death knell.

4.4 In addition to modernising machinery there would also be a need to look at its infrastructure. Mail items are becoming bigger and are too large to go through letter boxes or require a signature on delivery and therefore it is necessary to modernise the infrastructure and Royal Mail should look at delivery convenience options and consider how this can be improved. Although the operations of Post Office Limited (POL) were excluded from his review, Hooper did suggest that benefits could accrue to both post offices and Royal Mail if they explored innovative arrangements (eg using post office outlets to hold undeliverable mail for customers). In addition, we would expect Royal Mail to look at similar alternatives to Pack stations (in Germany), a similar idea to the Royal Mail Locker Banks that were trialled in Nottingham and Bristol in 2002/03. The Pack stations in Germany are a success yet Royal Mail withdrew its similar service after the trials.

## **5. Industrial relations**

5.1 Hooper states that the relationship with the unions has in the past been difficult, but that now is the time for both parties to work together to make the postal service the best around. The CWU has gone on record that it was supportive of greater automation of Royal Mail operations and therefore it would be expected that any modernisation programme would mean that Royal Mail and the CWU would work together to make this a success and safeguard the future of its employees. However, to meet efficiency requirements, there will be a need to change existing working practices in a potentially fundamental way. Doubtless this will impact upon staffing requirements and the prospect of redundancies at all levels can't be ruled out. Royal Mail, CWU and UNITE will all need to work closely together to ensure that these changes are delivered and that customers are not inconvenienced by industrial action.

## **6. Strategic Partnership**

6.1 Hooper has recommended a strategic partnership of some kind between Royal Mail and one or more private companies with demonstrable experience of transforming a major network business. By doing so he believes it would provide the funding and experience Royal Mail requires. It is Hooper's view this would be used to transform the company and ensure that modernisation was undertaken in an efficient way.

6.2 Hooper is unclear to the extent of the strategic partnership/part privatisation of the Royal Mail Group. The government appears to prefer a strategic partnership that involves one other party with experience of modernising incumbent postal operators.

6.3 The report suggested that the government should take over the pension deficit, which is estimated to be approximately £8 billion. The government has indicated it is prepared to do so only if Royal Mail acquires a strategic partner. Although the intention is for the government to take on

the whole of the deficit, this may be framed on a sliding scale against indicators that demonstrate that modernisation has been achieved.

6.4 Consumer Focus should have no pre-conceived view on the structure or ownership of Royal Mail so long as the outcome maximises benefits to consumers and doesn't detract from the modernisation or industrial relations that are necessary.

6.5 Investment by a minority private stakeholder will provide the commercial confidence, access to capital and access to corporate experience that Hooper perceives Royal Mail needs to transform itself. He does not mention how much capital is needed, what would be an acceptable level of capital or over how many years this would cover

6.6 A minority private partner with experience in the transformation of a postal network would bring both the capital for investing and the experience. However, it may be that an investment company would provide more capital than another postal operator and decide to bring in the experience by 'Head Hunting' from one of Royal Mail's competitors.

6.7 There are similarities with this approach which Royal Mail tried when they appointed Elmar Toime in March 2003 on the basis of his track record of driving through change in postal services and retail banking in New Zealand. He headed up the Royal Mail letters business until May 2004 when this was taken over by Adam Crozier. The New Zealand Model is described at Annex A

6.8 If Royal Mail were to maintain their current status, they may be able to buy in the expertise and use the remainder of the commercial loan of £1.2 billion that was agreed by the Government in 2007 over the plan's lifespan to 2011. Royal Mail has indicated that it already has plans to spend the remaining unspent £600m of that loan. What is unknown is whether this has been earmarked to make the modernisation Hooper recommended or whether it is sufficient in any event.

6.9 Alternative models in other countries were referred to in Hooper and will need to be considered further some of these (New Zealand, Sweden, Belgium and the USA) are outlined in Annex A.

6.10 Part privatisation of a public institution such as Royal Mail is a highly emotive issue and public sentiment may yet be a factor. Public perception may well be based upon less tangible factors and these may change with greater understanding of the consequences of either option, not only in terms of implications to quality of service, but also the potential cost of a stamp on an individual level, and the public purse at a higher one. Recent government bail-outs of the banking sector may make further public investment in Royal Mail not viable or desirable. It is proposed that Consumer Focus undertake some deliberative research to gauge the opinion of consumers on this issue and on other issues referred to in this paper to explore developing public perception on the options, including government responsibility for the pension deficit.

6.11 The waters are further clouded by the recent news that all parts of the Royal Mail Group (Royal Mail, Post Office Limited, General Logistics Systems and Parcelforce Worldwide) has recently

announced profits of £255m for the 9 months leading up to Christmas and expects to double the profit it made in 2007-08. One view may be that if Royal Mail is beginning to make a profit, why is there a need for some form of privatisation. This of course does not take into account that the level of profit is across all 4 parts of the group and that it is nowhere near enough for the company to reinvest in the transformation programme. It also does not cover off the point about the injection of new expertise into Royal Mail. A Royal Mail Group that is now showing a profit may make it more attractive to potential investors.

## **7. Competition**

7.1 A serious implication of Royal Mail finding a strategic investor from within the postal market is the effect that it may have in the longer term on competition. If a competitor, such as TNT, became that strategic partner, rather than develop its own alternate business plan, it may be commercially more sensible to invest more in Royal Mail and/or work more collaboratively. The consumer may benefit from this, but it could have the effect of placing competitors at a disadvantage and deterring new entrants into the market. In one single stroke it could drive competition out of the market.

7.2 It could also have an effect on the upstream business, with consumer feeling that they have now less choice. As a result fewer postal operators would use Access Arrangements as they do at the present time. Alternatively rather than using the Access Agreement route there may be a move towards more postal operators providing a local 'end to end' service. Considerable more dialogue needs to take place between Consumer Focus, Postcomm, Ofcom and other stakeholders to bottom out the competition issues posed.

## **8. Legislation**

8.1 Any new legislation must protect the universal service and this should be one of the key objectives when any new legislation involving postal services is written.

8.2 Royal Mail continues to complain as it did recently that the one-price-goes anywhere universal service remains loss making and under threat. However, legislation does need to protect this because it is very clear that given a chance Royal Mail will do whatever it can to reduce the level of the universal service. However, deliberative research undertaken for Postwatch in 2008 provided details of what services should remain within the USO (summary at Annex B) and this should help to inform any decisions that are made regarding the universal service.

8.3 If a strategic minority partner does invest in Royal Mail we would expect the experience that it brings would be able to deal with this issue and introduce new innovative ideas, especially, regarding deliveries to locations in deep rural areas that are not easy accessible but still require a daily delivery and collection of mail.

8.4 Consumer Focus needs to ensure that any new legislation has sufficient powers that cover competition issues, access to postal operators information and, in particular, cost data.

## **9. Regulation**

9.1 Postcomm and Ofcom have we understand been discussing with BERR the possibility of Ofcom becoming the regulator for the postal industry. Therefore, changes appear to be moving forward quickly. While this would appear to be sensible especially with the move towards more electronic forms of correspondence (SMS, e-mails and the more recent idea of via post) there may be ramifications for Consumer Focus.

9.2 Currently Ofcom has a consumer panel and deals with consumer issues within its own organisation. The inherent purpose is that Consumer Focus is seen as the consumer body on postal services, and post offices issues, and this forms part of our forward work programme and funding. We would not wish to see that disturbed but accept the issue of consumer representation in relation to postal services may need to be reviewed at some future point in time. For the present the MoU that Consumer Focus has with the Ofcom consumer panel ensures that we work effectively together and reflects the fact that the panel does not have the same opportunity as Consumer Focus to campaign on behalf of postal consumers.

## **10. Next Steps**

10.1 There is no mention of timing in the Hooper report but it is quite clear from government reaction and dialogue between Consumer Focus and BERR staff that the change programme will be driven through as quickly as possible. We are aware that there is much bi-lateral discussion is ongoing between the key stakeholders, namely: Royal Mail, BERR, Postcomm, Ofcom, and other parties interested in becoming the minority strategic partner.

### **10.2 Stakeholder event**

10.2.1 Following discussion with staff implementing the Hooper recommendations, BERR were supportive of Consumer Focus hosting a stakeholder event designed to bring all key players involved around the table to seek agreement on issues of common ground, to explore areas of conflict and alternate proposals and for BERR to be able to test possible policy areas. This was a suggestion originally made by Roger Darlington. However, BERR has moved its timetable and is now giving off signals that it wishes to manage its own engagement with its stakeholders and that it would not be willing to take part in any event prior to its detailed policy announcement.

### **10.3 Consumer Research**

10.3.1 We believe that the key recommendations of the Hooper review, in particular the aspect of part privatisation, is one that is worth exploring with consumer research. The deliberative methods pioneered by or predecessor organisations, would be an appropriate way to do this. We propose a deliberative consumer forum before the end of March 2009.

## **10.4 Lobbying**

10.4.1 Robert Hammond has been invited by BERR to a Postal Policy Steering Group that will be made up of representatives from various parts of BERR, Ofcom, Postcomm, HM Treasury and Consumer Focus. The group meets for the first time on 29<sup>th</sup> January and we should have a better idea of BERR's intentions at that time. We want to take the opportunity to lobby for positive consumer language and commitments, such as those around the USO and quality of service, in any draft legislation.

## **11. Decision points:**

- Should Consumer Focus support modernisation at any price if it delivers a better service for postal consumers, or should it take a position in relation to other social consequences, eg job losses as a result of greater automation?
- How should Consumer Focus position itself initially on the highly political issue of privatising Royal Mail, either partly, fully or not at all? Is it right to say that we believe that Royal Mail needs sustained, significant investment for modernisation but where that capital comes from is a government decision?
- Is it helpful to organise deliberative research in order to test the consumer view on issues such as privatisation?
- If Royal Mail and a significant other operator, such as TNT, do form a partnership, would any consequential lack of competition be an issue for Consumer Focus if consumers benefited from any such union?
- Should the long term competitive market take precedence over short term benefits to consumers and if so to what extent and between which consumer groups? For example, how much weighting should be given to the interests of consumers who rely on the post more (non-internet and rural) as opposed to other groups?
- Does Consumer Focus support the concept of Ofcom taking over the regulatory function?
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## ANNEX A

### International postal market models

#### **TNT Post (Netherlands)**

TNT Post was privatised in January 1989 and the Dutch government sold its remaining share of 10.9% in 2006, including its golden share.

The reserved area was reduced from 100g to 50g on 1 January 2006. The original date for full liberalisation was 1 April 2007, but this was postponed until 1 January 2008, then 1 July 2008 and recently (May 2008) even longer (undetermined period). The main reasons presented were uncertainties regarding (i) the level playing field for postal operators in the Netherlands, Germany and the UK, and (ii) labour conditions for (non-TNT Post) deliverers in the Netherlands.

The USO complies with the Directives and is carried out by the incumbent, TNT Post. The Postal Act 2008 (article 30) arranges for the financing of the USO after liberalisation. The USP must inform the regulator, OPTA, when it expects a net cost for the next calendar year. Within six months after the end of a particular calendar year, TNT Post can ask OPTA for compensation. OPTA will assess the exact net costs. The net cost will be spread between all postal operators and will be based on their annual turnover.

Other postal operators have 14% of the market, the main competitors being Sandd, Selekt Mail/DHL (Deutsche Post World Net (DPWN)).

In 2007 TNT Post made an operating profit of €1,192m and an operating profit margin of 14.8%.

*Source: group.tnt.com and Main developments in the postal sector (2006-08), Ecorys September 2008.*

#### **Deutsche Post (Germany)**

Deutsche Post (DPAG) was transformed into a joint stock co. in 1995. In 2000 the initial public offering was carried out. 31% of the stock is owned by the public financial organisation KfW, 69% are on the stock exchange (free float).

The German postal market has been fully opened to competition since 1 January 2008. To operate - on a profit-oriented basis - a licence is required of letter post items weighing less than 1kg.

Other mail operators have 10.4% of the market (licensed area, letter items up to 1kg), the main competitors being TNT Post and PIN Group (although parts of the group are insolvent). There are also many regional/local operators.

The regulator, NRA, has to ensure that all universal services are provided. Since January 2008, DPAG is no longer obliged by law to provide a universal service, but is still bound to provide it (insofar as it must give a six month notice of its plans to cease this service). DPAG can, with six months notice,

indicate to the NRA that it plans to stop providing part of the universal service. In this case, the NRA should find a postal operator willing to deliver these services without additional compensation or – if unsuccessful – may oblige an operator with a dominant market position or – if not feasible without compensation – launch a tender procedure for delivering this specific part of the universal service.

In 2007 DPAG made an operating profit of €3,202m and an operating profit margin of 12.9%.  
*Source: dwnp.de and Main developments in the postal sector (2006-08), Ecorys September 2008.*

### **Post Danmark (Denmark)**

Post Danmark has been a public limited company since 2002. In 2005, the Danish State started the privatisation of Post Danmark by selling 25 per cent of the shares - 22 per cent to the investment company CVC Capital Partners and 3 per cent as employee shares. The merger of Post Danmark with the main Swedish Postal operator was announced on 1 April 2008.

Other mail operators have between 1-5% of the market, the main competitor being CityMail.

Delivery of domestic addressed letter mail and inbound cross-border mail <50g is reserved. Not in the reserved area are letters with uniform printed contents in transparent packaging.

There is State support in the form of a subsidy per item distributed, totalling an annual contribution of € 53m. At the beginning of 2007, the Danish Government changed the subsidy scheme. From 2007, the subsidy is paid directly to the publishers of daily newspapers.

In 2007 Post Danmark made an operating profit of DKK713m and an operating profit margin of 7%.

*Source: postdanmark.dk and Main developments in the postal sector (2006-08), Ecorys September 2008*

### **Posten AB (Sweden)**

Posten AB is a public limited company. The Swedish government holds 100% of the shares, although a merger with the main Danish postal operator (Post Danmark) was announced on 1 April 2008.

The Swedish postal market has been liberalised since 1 January 1993.

Posten AB's main competitor Citymail currently has 9% market share as opposed to Posten AB's 90.7%.

The USO complies with the EU Directives and is carried out by Posten AB. There is no arrangement for the financing of the universal service, but certain services are (and can be) procured by the regulator, PTS.

A licence is required to provide services for addressed mail up to 2 kg in envelopes or other wrapping. A licence is also required for postcards, individually addressed periodicals, magazines, newspapers, catalogues and books. License requirements are relatively easy to meet.

In 2007 Posten AB made an operating profit of SEK 1,995m and an operating profit margin of 10.7%.

*Source: posten.se and Main developments in the postal sector (2006-08), Ecorys September 2008*

### **USPS (USA)**

In 1970, a decision was taken that the Postmaster General would no longer be appointed directly by the President. Just as important, there was an agreement that the company would finance all future investment from its retained earnings.

Parallels between the United States and Europe are, however, limited. USPS retains a monopoly in the delivery of letters, while European directives require that all European postal markets must be fully open to competition by 2012. Moreover, industrial action is prohibited by law.

#### *Postal Accountability and Enhancement Act*

On December 20, 2006, George W. Bush signed the Postal Act of 2006. It modernised price regulation and service standards, increased the authority of the regulator, PRC, required a variety of reports and evaluations, and accelerated the funding of Postal Service retiree health benefits.

Additionally, it ended the previously mandated break-even business model and allows for profit-or-loss, encouraging retained earnings to be reinvested into the business.

The law divided postal products into market dominant and competitive categories with increased pricing flexibility for both. The law limits price increases for dominant mailing services to the annual rate of Inflation.

A new Competitive Products Fund, apart from the existing Postal Service Fund, was established at the U.S. Department of Treasury. A new assumed income tax will apply to profits from the Competitive Products Fund, with tax proceeds transferred to the Postal Service Fund to help defray costs for meeting the USO.

The law also requires the PRC to report to Congress and the President on the (USO) and monopoly status of the Postal Service. The PRC also held a public inquiry to solicit comments from a variety of stakeholders. Most comments supported preserving the USO as well as the two components of the monopoly (the Private Express Statutes and the mailbox access rule) to ensure funding for the USO.

Another key aspect of the law entails funding for Postal Service retirement and health benefits. Each year over the next decade, the Postal Service must pay between \$5.4 billion and \$5.8 billion into the new Postal Service Retiree Health Benefits Fund. Without this pre-payment requirement, the Postal Service's operating net income would have been \$2.8 billion.

In 2008 USPS made an operating loss of \$2,806m with a net margin of (3.7%). USPS made capital contributions to the US government of \$3,034m.

Source: usps.com, United States Postal Service, Comprehensive Statement on Postal Operations (2008) and Hooper Report (2008)

### **NZ Post (New Zealand)**

NZ Post was established in 1987 as a 'state-owned enterprise' from the corporatization of the NZ Post Office. In 1998, the Postal Services Act removed New Zealand Post's statutory monopoly on the carriage of letters, opening up the market to full competition. There are currently over 25 individual postal operators in New Zealand.

A Deed of Understanding exists between the Government and New Zealand Post setting out New Zealand Post's social, price and service responsibilities. The Deed requires New Zealand Post to continue to provide a universal postal service. It covers delivery frequencies, retail outlet numbers, rural delivery obligations and NZ Post's dealings with other operators.

In the year ended 30 June 07 revenue was NZ\$ 1.222 billion (approx £450 million) and profit was NZ\$70.2 million (approx £20.6 million). In that year a dividend of NZ\$30.8 million (approx £11.4 million) was paid to the NZ Government. Since 1987 NZ Post has paid more than NZ\$1 billion (approx £370 million) in dividends and taxes to the NZ Government.

## ANNEX B

### USO requirements for social and bulk mail consumers

#### Social consumers

##### 1<sup>st</sup> and 2<sup>nd</sup> class

At first, in all workshops, a great desire to maintain the status quo. On discussion of future needs, service users suggest that they will need a premium service, more reliable than current 1st class, (which could be more expensive); plus a more basic service, with a delivery time between current 1st and 2nd class (which needs to be very consistent and reliable).

- Documents delivered in 1-2 days
- Personal mail delivered in 3-5 days
- 6 deliveries per week; but if a 5 day service is required, then missing a mid-week day would be preferable to missing Saturday delivery.
- Reliability and consistency in speed of delivery so customers know what to expect from the service offered to them. This is important as customers have expressed real concerns and dissatisfaction stemming from these 'unknowns'.

##### Standard Parcels

After discussion, this service is seen to have a social value, that is to say, it is a valuable and necessary service for society. It provides the choice of a basic way of sending a large package.

- Maintain ability to send parcels/packets through whole of UK
- Better ability to track and trace parcels/packets (even the option to pay for more precise delivery times)
- Changes to delivery office procedures and opening hours to fit with daily life of receivers
- Not necessarily speedy, but safe and reliable.

### Recorded and Special Delivery

Some confusion between these services and between letter and parcel/package options generally. A key finding for both special and recorded deliveries is that social users do not imagine the services as separate products – for them, sending the parcel/package or letter is the service, and security, speed and price are all service options on that service, not separate services. There is scope for renaming and simplifying all parcel and package services in future.

For parcels and packages, if an enhanced and more reliable 1st Class service emerges, then recorded delivery or Standard Parcels both become less important. Special Delivery is seen as closer to the needed premium service. Underlying needs are:

- Security and ability to track – where is my postal item, at each stage? Customers expressed anxiety and a sense of helplessness about what happens to their item when it is out of their hands, to some extent this would give them back control, and consequently reassure them of its safe arrival.
- A need for Royal Mail to match the services of couriers; even if the market provides this service, there is a belief that Royal Mail will do it cheaply and universally (e.g. to remote areas). This possibly stems from the view that Royal Mail has historically provided a service that is accessible for all.
- Some concern; why can the standard services not provide the guarantee of arrival within a certain time? Could 1st class letter/package service be “upgraded” to become a special service?

### International Delivery

The need for this will increase with e-commerce and migrating populations. There may be a need to communicate it better and seek to standardise, at least across Europe, the length of time necessary for delivery.

### Redirection

Awareness of this service is low, with the majority of those who are familiar with it being past users. It is seen as an additional nice to have, which is not expensive to run and could, at one or two points in life, prove very useful.

***Source: Understanding social customers’ mail habits and behaviours, undertaken by Ipsos MORI on behalf of Postwatch (September 2008)***

### **Bulk mail consumers**

#### Bulk mail as part of the USO

Most bulk mailers found it very difficult to anticipate what the effect of removing bulk mail from the USO might be. Most therefore took a precautionary stance and resisted the idea of its removal

because they assumed that the service might no longer be offered or there might be some sort of deterioration in the service.

#### Uniform price and delivery to every UK address

For most, delivery to every address is an intrinsic and essential part of Royal Mail's bulk service. It is important for their business that they can reach all addresses regardless of their location. Uniform pricing is also considered to be very important. Most do not want Royal Mail to move to zonal pricing, although they can see a rationale for this.

#### Collection and delivery service six days a week

The need for a six day week service depends on the type of organisation and whether they themselves operate a six day week. For most bulk mailers, six day delivery is more important than collection with Saturday delivery of particular importance to some company types.

Saturday collection is important for fewer businesses, mainly large mailing houses who operate six days and in some cases seven days in order to deal with the throughput of mail.

#### Saturday delivery

From a business point of view the loss of a Saturday delivery would mean that operations would have to be reviewed in many cases and working practices altered to accommodate the change. For some, the removal of a Saturday delivery would be sufficient to encourage them to look at alternative services.

#### First Class next day coverage

Most bulk mailers believe there should universal coverage of next day delivery.

#### Change to time of delivery

A delivery two hours later than at present would not matter hugely for some bulk mailers. Many of the recipients of the items they were sending would be at work so not opening their mail until later in the day.

Whilst bulk mailers felt much happier about having delivery two hours earlier, they expected it to improve perceptions of Royal Mail's service. It was also unlikely to persuade them to move from other carriers to Royal Mail or to increase the volumes they send.

***Source: USO Bulk Mailer research report, undertaken by Accent on behalf of Postwatch (May 2008).***